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TAGS: [EPET](#) [ENRG](#) [PHUM](#) [TU](#) [BTC](#)  
SUBJECT: BTC PIPELINE IN TURKEY STILL AIMING FOR LATE 2005  
FIRST TANKER LOAD - SUB-CONTRACTOR WOES ADDRESSED

Refs: A. Ankara 131, B. Ankara 1306, C. Ankara 1040

Sensitive but Unclassified. Please Handle Accordingly.

1. (SBU) Summary: While working to deliver the Baku-Tbilisi-Ceyhan pipeline in Turkey has pushed Turkey's state pipeline company BOTAS to operate much closer to international standards, it has encountered great difficulty managing the variety of sub-contracts on the job. BOTAS has had to sequentially take over a number of sub-contracts for non-performance, but is still estimating first oil at Ceyhan in fourth quarter 2005. While there may be some instances of slow payment on compensation to land-owners, Embassy is not aware of any systemic problems or irregularities, nor is there any evidence of corruption or human rights violations. End Summary.

The view from Erzurum - Pump Station #2 and Lot B  
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2. (SBU) In an April 20 visit to Erzurum, Energy Officer visited Pump Station number two and portions of Lot B of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. As reported in Ref A, BOTAS (Turkey's state pipeline company and BTC general contractor) took over the Lot A (from the Georgian border) subcontract in December 2004 because of inadequate performance from the sub-contractor, TEPE-Nacap (a Turkish-Dutch JV). In addition, BOTAS initiated greater oversight of the Lot B sub-contract with another Turkish company, Alarko. Most recently, on March 29, BOTAS also took over the sub-contract for the four pump stations in Turkey from TEPE, again for inadequate performance. Per Ref B, the BTC consortium provided two loans totaling \$160 million to BOTAS to cover extra project completion costs in Turkey, and to avoid making a sensitive call under the Government of Turkey (GOT) guarantee for delivery of a fixed cost and date contract for the project. According to the turn-key contract with BOTAS, the pipeline was to be complete by May 15, after which daily penalty payments of \$ 0.5 million would accrue. BTC officials told Energy Officer that whether or not this date would be enforced or adjusted was still an open issue. Moreover, they said funding of the second loan tranche was premised under a number of strict conditions that might discourage its use.

3. (SBU) BTC Pump Station Manager Gary Allen was upbeat about the ability of the project to deliver first oil at Ceyhan in October 2005. He outlined a number of key steps for realizing this goal. According to Allen, starting May 2, the first 125 km from Baku would be filled for detailed testing of the oil and its viscosity, which would assess adequacy of plans for dealing with the high wax content of the Azeri oil to assure capacity for high elevation winter transit along the route. He noted that there were still construction issues in Georgia, including directional drilling underway to put in place a significant river crossing. Allen said that oil was to be ready at the Georgia-Turkey border by June-July, when the pipeline in Turkey was to be ready for final testing and filling. While Allen was optimistic for first oil in October in Ceyhan, he noted if there were a combination of further construction delays and negative testing results on oil waxing properties in cold temperatures, then first oil could be delayed to 2006.

4. (SBU) Allen explained that Pump Stations 1 (near the Georgia border) and 3 (east of Erzincan) would provide the main pressure impetus to pump oil over mountains in Turkey, while Pump Stations 2 (at Erzurum) and 4 (near Sivas) would provide boosting capacity for larger volumes, as well as completing the fiber optic supported control network. Energy Officer observed that Pump Station 2 still looked like an active construction site, with a lot of work left to be completed: final tie-in of the pipeline; final tie-in of the gas spur from the Iran-Erzurum gas line; final work on the four 4 MW engines, gear-boxes, and pump-room.

5. (SBU) BTC Lot B Construction Manager Joe D'Amico was

optimistic for June completion of Lot B, the longest of the three lots in Turkey at 470 km. He admitted that this was a bullish schedule, given that large portions of the route were still buried under heavy snow. He said that the pipeline was welded and back-filled, but hydro-static testing, installation of block valves, and reinstatement (contouring, replacement of top soil, and re-seeding) remained to be done (he showed examples of all these to Energy Officer). D'Amico explained the challenge of closely paralleling the Natural Gas Pipeline (NGPL) from Iran in parts of Lot A and B, where no reinstatement had been done by BOTAS in constructing that line about five years before. Not only could no dynamite be used in BTC construction, but now the consortium faced the need to do additional reinstatement of the NGPL to avoid erosion risk to their own pipeline. D'Amico explained that after reinstatement of the 28 meter BTC right-of-way, the land owner (already compensated) would regain rights to the land, apart some restrictions on building or planting on the 8 meter center strip.

#### Community Investment Program

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16. (SBU) BTC Community Investment Program implementer Faik Kantar (Ataturk University Agriculture Faculty) briefed Energy Officer on the extensive agriculture and community development programs being implemented under a 3-year \$150 million budget for sixty villages around Erzurum. In a meeting with the Ilica Kaymakam (sub-Governor), five village muhtars (elected village officials) spoke highly of the program, but spent more time complaining about problems associated with construction in Lot B. The sub-contractor, Alarko, had taken over the contract from an earlier incarnation, STA, which had rushed to complete its work during the short summer season, and had not repaired some damage to irrigation ditches and access roads. The local irrigation council had taken the case to the court system. Note: while all parties hope for a timely settlement, in this particular area, the lack of closure on these construction problems risks to erode the good-will BTC hopes to generate by its community program. BTC officials told Energy Officer that this was an exceptional case, but it was out of their hands pending resolution of the court process. End Note.

17. (SBU) Both the Mayor and Chamber of Commerce President of Erzurum were strongly supportive of BTC and the "East-West Energy Corridor" as a positive contributor to the city and region. They also expressed pride in the recent municipal natural gas contract - only partially implemented to date - to replace wide use of dirty coal. They also embraced plans for expanding Erzurum's skiing facilities, including dreams of hosting a winter Olympics in the future.

#### Non-performance of Sub-Contractors - Not Corruption

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18. (SBU) An April 14 story in the Radikal newspaper reported on a Prime Ministry inspection report that highlighted alleged overpayments by BOTAS to its sub-contractors, including TEPE-Nacap. The article claimed that in TEPE-Nacap's scramble to retain its contract for Lot A, it had demanded extra payments from BOTAS. In addition, according to the article, BOTAS made a high priced contract to Fernas Company to set up an "emergency team" to complete work, because of proximity of available construction equipment. Per Ref C, Fernas Company is one of a number of firms (including BOTAS) under investigation under the current energy probe for payment irregularities, harking back to the so-called "White Energy Scandal". BTC officials told Energy Officer that the consortium had approval authority over principal sub-contractors, but claimed that BOTAS had acted on its own in apparently engaging Fernas. Officials also lamented that in general sub-contractors had bid too low, took their cut, and then threatened to walk unless more money was paid. Or, in the same vein, they resort to arguments about scope and design (BOTAS and TEPE are engaged in such an argument related to both lot A and the pump stations contracts). An April 27 article in the Aksam newspaper reported that the Ministry of Energy had begun an inspection of alleged overpayments by former BOTAS officials to sub-contractors, and was considering initiating a court case.

#### Comment - Glitches, but not Systemic Abuses

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19. (SBU) Given the scope of the three-country project through rugged, mountainous terrain, it was inevitable that there would be some delays and cost over-runs in the BTC pipeline. BOTAS has been forced to adopt international business standards, but is still not all the way there. According to BTC officials, the naming of a new BOTAS BTC manager, Osman Gokcel, fourteen months ago, brought a serious management perspective, replacing the previous

political bureaucrat mind-set. There may ultimately be more allegations of mismanagement among BOTAS and sub-contractors, but Embassy has no reason to believe that BTC management has engaged in any kind of corrupt practice. It is unfortunate to see for the first time one of the BTC sub-contractors named specifically as allegedly involved with improper payments. In the confusion of attempting to deal with non-performance by some of its sub-contractors, BOTAS may have not adhered to appropriate procedures or good business practices, and may be exposed to criticism of poor management by inspection audits. Unfortunately, the plethora of sub-contracts, some apparently chosen for political connections, more than technical competence, has led to the ultimate need for BOTAS to take over the contracts. The inability to adequately police sub-contractor performance may have contributed to excessive collateral damage, which may remain a lingering issue. BOTAS will have gained valuable lessons learned for managing large, multi-country projects for future development.

10. (SBU) In addition, Embassy finds no credence in claims by some outside groups of alleged human rights abuses. For example, while a London-based Kurdish group has alleged human rights violations in Turkey related to the pipeline, domestic groups have made no such claims. Some of the outside claims incorrectly refer to Kurds living in the North-East, next to Georgia. Embassy notes the vigilance of both World Bank IFC and the Caspian Development Advisory Panel providing regular oversight on human rights and community development issues, countering the shrill claims of some web-sites outside of Turkey. At a meeting last fall with former State official Stuart Eizenstat and the Caspian Advisory Group, Embassy and reps discussed training and controls related to human rights for the Jandarmarie Corps, responsible for BTC security in Turkey. Embassy observes that BTC appears to have a robust and detailed program for seeking "buy-in" from local populations by co-financing investment in cooperatives, agriculture, animal husbandry, irrigation, and women's education, in addition to resolving construction-related complaints.

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